

AR01



Hawker Siddeley Canada LTD.

J. F. A. Painter

PUBLIC RELATIONS MANAGER


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Hawker Siddeley Canada LTD./1969 Annual Report



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CONTENTS

2	Directors and Executive Management
3	Financial data in brief
4	To the shareholders
4	Income
4	Dividends and retained earnings
4	Comment
5	Changes in Board of Directors
6	Comments on operations
6	Hawker Siddeley Canada Ltd.
6	Hawker Industries Limited
8	Orenda Limited
8	Canadian General Transit Company, Limited
8	Canadian Steel Wheel Limited
9	Consolidated statement of income
9	Consolidated statement of retained earnings
10	Consolidated balance sheet
12	Consolidated statement of source and application of working capital
13	Notes to consolidated financial statements
15	Auditors' report
16	Products and services
16	Divisions and subsidiaries

Notice of Annual General Meeting

The Annual General Meeting of Shareholders will be held in the Ontario Room of the Royal York Hotel, Toronto, Ontario, on Friday, May 15th, 1970 at 11:00 a.m., E.D.T. A notice of the meeting, an information circular, and a proxy form for the convenience of those shareholders holding common shares, are enclosed with this report.

Head Office

7 King Street East, Toronto 1, Ontario

Directors

Sir Arnold Hall, London, England
A.S. Kennedy, London, England
A.S. Pattillo, Q.C., Toronto, Ontario
R.S. Faulkner, Toronto, Ontario
A.A. Bailie, Toronto, Ontario
A.J. Laurence, London, England
G.R. McGregor, Montreal, Quebec
A.W. McKenzie, Montreal, Quebec
F.P. Mitchell, Mississauga, Ontario
K.L. Phillips, London, England
W.P. Scott, Toronto, Ontario
R.G. Smith, Halifax, Nova Scotia
Colin W. Webster, Montreal, Quebec

Executive Management

Sir Arnold Hall, Chairman
A.S. Kennedy, Vice-Chairman
A.S. Pattillo, Q.C., Vice-Chairman
R.S. Faulkner, President and Chief Executive Officer
A.A. Bailie, Vice-President, Finance, and Treasurer
I.E. Bull, Vice-President and Comptroller
M.E. Davis, Vice-President
R.E. Henderson, Vice-President (Canadian Car Division)
G.R. McGregor, (Chairman, Orenda Limited)
A.W. McKenzie, (Chairman and President, Canadian
General Transit Company, Limited)
F.P. Mitchell, (President and Chief Executive Officer,
Orenda Limited)
J.G. Mitchell, Vice-President (Trenton Works Division)
L.A. Mitten, Vice-President (Canadian Car (Pacific)
Division)
J.H. Ready, Vice-President and Secretary

Auditors

Price Waterhouse & Co., Toronto, Ontario

Registrar and Transfer Agent

National Trust Company, Limited, Toronto, Montreal,
Winnipeg, and Vancouver

FINANCIAL DATA IN BRIEF

(In thousands of dollars except per share data)	1969	1968
Consolidated net sales	\$188,061	\$172,475
Interest expense	4,251	3,644
Depreciation	6,652	5,922
Income from operations before taxes	6,341	7,088
Income taxes	3,741	2,571
Income of subsidiaries attributable to minority shareholders	1,368	1,579
Net income for the year*	1,232	2,938
Per preferred share	8.80	20.99
Per common share**	.05	.26
Preferred dividends paid	201	—
Per preferred share	1.43¾	—
Capital reduction credited in 1969 and extraordinary items (charged) in 1968 to retained earnings/deficit	29,164	(29,164)
Working capital	34,466	34,230
Capital expenditures	15,151	16,095
Invested in fixed assets (net)	98,465	92,343

* Excludes extraordinary items in 1968

** After preferred dividend requirements

Your directors submit herewith the accounts of Hawker Siddeley Canada Ltd. and its consolidated subsidiaries for the year ended December 31, 1969, and report as follows :

Income

On consolidated net sales of \$188 million (1968 : \$172 million) the income from operations, before taxes, was \$6,341,247 in 1969 compared with \$7,087,942 in 1968. Had it not been for the necessity to make a provision of \$2,350,000 against anticipated losses on drilling rig contracts at Halifax Shipyards, the income from operations in 1969 would have been \$8,691,247.

Relief for losses carried forward in subsidiary companies reduced the provision for income taxes in 1968 by approximately \$1,100,000, whereas, in 1969, very little relief from taxation is currently available for the loss of a subsidiary company, and almost the whole of the loss is a charge against net income.

As a result of these factors the consolidated net income fell to \$1,232,513, equivalent to 5 cents per share on the issued and outstanding Common shares of the Company, after allowing \$805,000 in respect of the cumulative dividend entitlement of the issued and outstanding Preferred shares. On the same basis, 26 cents per Common share was earned in 1968.

Dividends and Retained Earnings

On December 16, 1969, the Company paid a quarter's dividend of \$1.43¾ per share to holders of Preferred shares of record at the close of business on December 9, 1969. This payment was the first Preferred share dividend since such dividends were suspended in 1968 and related to the quarterly dividend which was due but unpaid on April 2, 1968. A further quarter's Preferred share dividend was declared payable April 2, 1970 to Preferred shareholders of record at close of business on March 26, 1970 on account of the next succeeding quarter's dividend in arrears. The Board of directors will continuously review

current earnings and cash flow and consider reducing the arrears of Preferred share dividends as the year progresses.

On May 15, 1969, at a Special General Meeting called for the purpose, the shareholders approved a reduction in capital of \$29,163,831. This related to the disposal of the Company's shareholdings in Dominion Steel and Coal Corporation, Limited which was extensively reported upon to shareholders. After payment of one quarter's Preferred share dividend on December 16, 1969, on account of arrears, the Consolidated Retained Earnings stood at \$3,969,560 at the end of 1969.

Comment

The year has been one of varying fortunes for the operating divisions and subsidiaries ; some produced improved results whilst others encountered problems of varying magnitude.

The Canadian Car (Thunder Bay) Division, though affected by the absence of contracts for its mass transit railcars, was able to improve sales and earnings in both the Tree Farmer and highway trailer product lines.

Record results were achieved by the Canadian Car (Pacific) Division following growing demands for its successful line of sawmill equipment. The Division was expanded during the year by the acquisition of the undertaking of Vancouver Industrial Controls Mfg. Co. Ltd.

Increased volume enabled the Canadian Steel Foundries Division to recover from last year's low, although results were affected by increased costs, including higher scrap metal prices.

In Hawker Industries Limited, the Canadian Bridge Division suffered from material shortages due to strikes in the steel industry, from depressed market prices, and from increased costs of completing the new bridge at Halifax which arose from unfavourable weather conditions encountered in the critical stages of erection.

Performance of the Halifax Shipyards Division was most

disappointing, due to problems arising from construction of the first large drilling rig which was nearing completion at the end of the year. Major difficulties were encountered with sub-contract work, while a shortage of skilled labour affected both performance and quality of the work. Much has been done to bring about substantial improvements in the construction of the second rig which commenced in 1969, but although considerable progress has been made, satisfactory performance has not yet been achieved. It has, therefore, been considered necessary to make the provision previously referred to against the losses anticipated on these two contracts.

The Trenton Works Division was unable to achieve its planned increase in earnings owing to the absence of freight car work for the Canadian railways in the first quarter, and to material shortages arising from the steel strike, which caused the production line to shut down for almost two months in the last half of the year. Substantial deliveries were made in the last months of the year and the Division entered 1970 with a good order book.

Dosco Overseas Engineering Limited, the United Kingdom-based subsidiary of Hawker Industries Limited, more than doubled its sales and earnings during the year.

Increased earnings were obtained by the 60%-owned Orenda Limited, due partly to a greater volume of industrial gas turbine business, and by the 55%-owned Canadian General Transit Company, Limited, which achieved this result despite pressure on margins caused by higher interest rates.

In 1970, the Company continues to face increasing pressures from rising costs of labour, materials, and services, while at the same time there is strong competition for available work and the Government is appealing for co-operation from industry not to increase selling price levels. However the order books of most of the divisions and subsidiaries will enable a high level of plant utilization to be maintained for the greater part of the year.

Changes in the Board of Directors

Mr. G.R. McGregor, Mr. A.W. McKenzie, Mr. F.P. Mitchell and Mr. R.G. Smith were elected Directors at the Annual General Meeting on May 15, 1969 to fill vacancies on the Board. Mr. A.J. Laurence was appointed a Director on December 2, 1969, to fill the vacancy caused by the retirement of Mr. J.F. Robertson on September 24, 1969.

Submitted on behalf of the Board

A.A. HALL

R.S. FAULKNER

Toronto, Ontario,
March 26, 1970

HAWKER SIDDELEY CANADA LIMITED

Canadian Car (Thunder Bay) Division

The market for woodlands equipment manufactured by the Division improved considerably towards the end of 1969.

Shipments of Tree Farmer skidder units increased over the 1968 level with more than 50% of the total vehicles produced being exported. Most of the machines shipped were of a larger, more powerful version which has received wide acceptance in the woodlands industry and won an increased share of the available market.

Further testing and development of other wood harvesting system components was carried out. The Division has also developed from the skidder machines a new line of all-terrain transport vehicles which is designed for a variety of off-road applications.

Can-Car trailers won an increased share of an expanded market during 1969 and sales improved significantly. However, strong competition depressed prices. Special trailers for carrying containers were produced for the first time and a large batch sold to a United States customer. At year end, U.S. orders were on hand for additional container trailers and for insulated containers, another new product line.

Early in 1970 a successful tender to the Toronto Transit Commission resulted in an order for 76 lightweight subway cars for delivery in 1971.

Canadian Car (Pacific) Division

Sales of sawmill equipment manufactured by this Division again reached record level. Among the various sizes and models of the successful Chip-N-Saw machine shipped during the year were units for Russia and Sweden. More than one hundred machines are now in operation of which 70 are in the U.S.A.

A new saw section for the Chip-N-Saw was successfully developed in addition to a band saw. The latter unit contains features not available in similar machines manufactured anywhere else in the world.

Edge chipper machine sales were also maintained at a good level. Following development of a new slabbing head edge chipper, a prototype model was installed in a British Columbia sawmill with excellent results.

Equipment to grind Chip-N-Saw knives which was designed and built during the year has a good sales potential for 1970.

This Division recently acquired a plant with an industrial controls capability, which continues to supply the control console for the Chip-N-Saw machine and also produces motor control gear and electronic equipment for the forest, mining, packaging and plastic industries, and controls for marine applications.

Canadian Steel Foundries Division

An improved demand by Canadian railways for new equipment and maintenance supplies resulted in a substantial increase in the sales volume of railway castings. Production of industrial castings also improved compared to 1968, but to a less significant degree. Among the industrial castings poured were a number of hydraulic turbine runners for the Churchill Falls hydro-electric power project. Each required a melt of 310,000 pounds of stainless steel. They are believed to be the largest stainless steel castings ever made in one piece anywhere in the world.

During the year, an advanced type of x-ray equipment capable of penetrating heavy castings was installed in the foundry. This special equipment permits the Division to meet the exacting inspection standards required in the production of castings for nuclear power application. As a result, export orders have been obtained for castings in this category for delivery in 1970. Prospects for additional sales in this new line of business are most encouraging.

HAWKER INDUSTRIES LIMITED (Approx. 99% owned)

Canadian Bridge Division

Production of fabricated steel for buildings was only slightly ahead of the 1968 level. Prices of fabricated

structural steel continued to be extremely competitive and generally depressed.

However, improvement in the sales of electronic structures, electric power transmission towers, and masts, raised the Division's total volume above the level of the previous year.

Construction work was completed for Canadian National Railways on Canada's largest railway lift bridge across Burrard Inlet at Vancouver, B.C. and the suspension bridge linking Halifax and Dartmouth, Nova Scotia, was virtually completed at year-end.

Halifax Shipyards Division

Work at the Shipyard in 1969 centred on the construction of a semi-submersible, offshore oil drilling rig and later in the year upon the initial fabrication stages of a second unit of similar design. The rigs each weigh in excess of 10,000 tons and are the largest units ever built at the Shipyards.

The level of ship repairs declined at the Halifax yard although some Naval work was obtained against keen competition. At the Dartmouth yard, work volume declined sharply in the fourth quarter after a period of relatively high activity.

An order was obtained for the construction of a diesel engined rail car ferry for Peru where it will operate on Lake Titicaca in the Andes. The vessel will be transported in sections and assembled at the lake.

Trenton Works Division

The Division continued to feel the effect of the reduced level of freight car orders placed by Canadian railways during 1968 and was without work in its main car plant for the first quarter. In addition, material shortages caused by a prolonged strike in the Canadian steel industry caused a costly disruption of manufacturing in the third quarter. The number of cars delivered fell to 1090 units. Included were tank cars, 300 mechanical refrigerator cars for Canadian National Railways and 414 of a 578-car order from the Canadian Pacific Railway for gondola coal cars of a new design. The coal cars will be used in unit train

operations in Western Canada.

Production of axles for railway rolling stock increased significantly.

Delivery of deck plates for the new Halifax-Dartmouth bridge was completed. They were fabricated in conjunction with Canadian Bridge Division.

As anticipated, the rail car market showed improvement during the year. Orders received for completion in 1970 include 1,000 covered hopper cars for CNR, the largest single order ever obtained by the Division, and 265 gondola cars for a Canadian rail car leasing company.

Dosco Overseas Engineering Limited

Intensive exploitation of new mining techniques by Britain's National Coal Board stimulated domestic sales of mining equipment designed and built by this subsidiary which is based in the United Kingdom.

Export sales also increased significantly and included machines supplied to Canada and Japan.

As a result, total production was more than twice the volume achieved in 1968 and required appropriate increases in both manufacturing space and staff.

At the year end, the first Tracked Ripping Machine developed by the company was delivered to the National Coal Board.

In 1970, domestic sales are expected to fall off slightly due to the U.K. Government's continuing restrictions on capital expenditures. However, further improvements in export sales are expected to compensate for this decline.

Interest in Collieries

As reported last year, the Company acquired from Dosco the assets of Old Sydney Collieries and of Acadia Coal together with 26,521 preferred shares of Dominion Coal Company, Limited (Domco) and all the common shares of that company. The assets and business of Acadia Coal were sold in 1968. On March 30, 1968, Cape Breton Development Corporation (Devco), a Crown corporation,

expropriated virtually all of the operating assets of Old Sydney Collieries and those of Domco and its subsidiary companies.

Discussions on the compensation to be paid for the expropriated assets have been held with representatives of Devco. However, these discussions have not been fruitful, since only recently were we advised that the appraisals of the various assets acquired by Devco are nearing completion. We hope that Devco will promptly come forward with particulars of the compensation to be offered. In the meantime, a claim for compensation has been delivered to Devco by solicitors acting for the Company and for Domco, and the solicitors are pursuing these claims. Present indications do not suggest an early resolution of the final amount to be paid.

ORENDA LIMITED (60%-owned)

The sales volume of the company increased by 14% over the 1968 level. Sales to export markets accounted for approximately 66% of the total.

Shipments of J.85 aircraft jet engines made during the year completed the delivery of engines ordered for Canadian Armed Forces CF-5 aircraft. Deliveries commenced of engines of a similar design for installation in F-5 aircraft of the Royal Netherlands Air Force and production of engines for this customer will continue into late 1970.

The value of jet engine components manufactured for the Pratt & Whitney Division of United Aircraft Corporation, Hartford, Connecticut, U.S.A. (40% shareholder) showed an increase over the 1968 level and contributed substantially to the company's large volume of export business.

Aircraft jet engine repair and overhaul work continued active. Sales of engine spares for both domestic and export markets were maintained at a good level.

Orenda industrial gas turbine units operate on several different fuels and are used in such applications as electric power generation ; pumping natural gas, crude oil, refrigerant and chemicals, and sea-water for water flood drive in oilfields. Units shipped in 1969 were double those

in 1968, although this increase was due in part to an accumulation of orders and customer delivery requirements. Orders are on hand for deliveries in 1970.

At the present time there is no known defence program to replace the production load provided by the J-85 engine, which amounts to about 25% of the company's recent turnover. Whilst the industrial gas turbine business is increasing, it cannot be expected to replace this major defence load and the management of the company are actively seeking additional replacement product lines.

CANADIAN GENERAL TRANSIT COMPANY, LIMITED (55%-owned)

This company performed well in 1969 and, although increased unit costs for new equipment and a marked rise in interest rates combined to put strain on profit margins, earnings were ahead of 1968.

Large scale retirement of older equipment reduced the total number of cars in operation below the 1968 figure, but the addition of new, larger capacity tank cars increased the overall carrying capacity of the fleet by 5.4 million gallons.

A new repair and maintenance depot was put into operation during the year at Red Deer, Alberta. This plant provides improved service for customers in Western Canada.

CANADIAN STEEL WHEEL LIMITED (50%-owned)

The company is owned jointly with the British Steel Corporation.

A high demand for steel ingots, coupled with an improvement in orders for railway wheels towards the year-end, increased the sales of this company and resulted in a satisfactory year's operations. However, increasing costs of scrap metal in the Montreal area, and of wages, have reduced profit margins.

Expanded sales of all product lines are expected in 1970.

CONSOLIDATED STATEMENT OF INCOME

For the year ended December 31, 1969

	1969	1968
Consolidated net sales	<u>\$188,060,908</u>	<u>\$172,474,688</u>
Income from operations before the items shown below	<u>\$ 16,555,833</u>	<u>\$ 16,179,477</u>
Income from investments	<u>688,297</u>	<u>474,581</u>
	<u>17,244,130</u>	<u>16,654,058</u>
Deduct:		
Interest on bank advances	1,825,310	1,620,340
Interest and discount on long term debt	2,425,337	2,023,732
Provision for depreciation	6,652,236	5,922,044
	<u>10,902,883</u>	<u>9,566,116</u>
Income from operations before income taxes	6,341,247	7,087,942
Provision for income taxes (Note 9)	3,741,000	2,570,749
	<u>2,600,247</u>	<u>4,517,193</u>
Interest of minority shareholders in net income (loss) of subsidiaries	1,367,734	1,578,891
Net income for the year (excluding extraordinary items)	<u>\$ 1,232,513</u>	<u>\$ 2,938,302</u>

*See accompanying notes to consolidated financial statements.***CONSOLIDATED STATEMENT OF RETAINED EARNINGS**

For the year ended December 31, 1969

	1969	1968
(Deficit) retained earnings at beginning of year	\$ (26,225,529)	\$ 4,831,939
Appropriated as reserve for contingencies	—	4,831,939
Application of reduction in common share capital (Note 10)	29,163,831	—
	<u>2,938,302</u>	<u>—</u>
Net income for the year (excluding extraordinary items)	1,232,513	2,938,302
	<u>4,170,815</u>	<u>2,938,302</u>
Extraordinary items:		
Loss and costs on sale of shares in Dosco—		
Loss on shares	—	24,363,546
Costs	—	511,835
Severance costs on reorganization of executive staff following sale of shares in Dosco	—	823,450
Provision by Hawker Industries Limited after minority interest, for additional estimated special costs and losses arising from the disengagement of Dosco from the operations of its former Sydney Works	—	3,465,000
	<u>—</u>	<u>29,163,831</u>
	<u>4,170,815</u>	<u>(26,225,529)</u>
Dividend on preferred shares	201,255	—
Retained earnings (deficit) at end of year	<u>\$ 3,969,560</u>	<u>\$(26,225,529)</u>

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET – December 31, 1969

Assets	1969	1968
Current Assets:		
Cash	\$ 759,142	\$ 705,816
Short term investments, at cost (approximately market value)	1,715,916	3,768,314
Accounts receivable	41,735,739	39,275,226
Due from Sidbec	—	20,109,370
Due from Dominion Steel and Coal Corporation, Limited.	—	5,682,912
Inventories at lower of cost and estimated realizable value, less progress payments.	37,007,677	33,692,958
Prepaid expenses	552,517	772,437
	<u>81,770,991</u>	<u>104,007,033</u>
Investments and Other Assets:		
Coal mining interests (Note 2)	1,872,718	1,872,718
Investment in associated company, at cost (Note 3)	4,220,000	4,295,000
Notes due from Sidbec (Note 4)	5,000,000	5,000,000
Debentures of Dominion Steel and Coal Corporation, Limited, at cost.	3,566,450	3,566,450
Mortgages and other investments.	537,666	699,043
	<u>15,196,834</u>	<u>15,433,211</u>
Fixed Assets, at cost:		
Land, buildings, machinery and equipment	187,998,229	175,994,615
Less—Accumulated depreciation	89,533,035	83,651,376
	<u>98,465,194</u>	<u>92,343,239</u>
Unamortized Discount on Long Term Debt	203,381	179,712
	<u><u>\$195,636,400</u></u>	<u><u>\$211,963,195</u></u>

See accompanying notes to consolidated financial statements.

Liabilities

1969

1968

Current Liabilities:

Bank advances (Note 5)	\$ 16,284,011	\$ 22,159,060
Accounts payable and accrued liabilities	24,858,740	27,805,125
Payable for shares in Hawker Industries Limited	—	14,652,425
Income and other taxes.	2,375,731	1,790,021
Long term debt due within one year (Note 6)	2,055,429	1,786,992
Due to affiliated companies	1,730,981	1,582,985
	<u>47,304,892</u>	<u>69,776,608</u>

Long Term Debt (Note 6)	<u>37,510,477</u>	<u>34,197,156</u>
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Provisions:

Unfunded pensions (Note 7)	8,138,006	8,422,179
Special costs and losses (Note 8)	4,363,341	5,333,549
	<u>12,501,347</u>	<u>13,755,728</u>

Deferred Income Taxes (Note 9)	<u>7,699,682</u>	<u>5,235,391</u>
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Interest of Minority Shareholders in Subsidiaries	<u>13,538,755</u>	<u>12,948,323</u>
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Shareholders' Equity:

Preferred and common shares (Note 10)	68,279,748	97,443,579
Reserve for contingencies.	4,831,939	4,831,939
Retained earnings (deficit)	3,969,560	(26,225,529)
	<u>77,081,247</u>	<u>76,049,989</u>

Approved on behalf of the Board:

A. A. Hall, Director

A. A. Bailie, Director

\$195,636,400\$211,963,195

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF WORKING CAPITAL

For the year ended December 31, 1969

1969

1968

Source:

Net income for the year	\$ 1,232,513	\$ 2,938,302
Non-cash items included in determination of net income—		
Depreciation	6,652,236	5,922,044
Amortization of discount on long term debt	16,596	12,122
Deferred income taxes (Note 9)	2,464,291	1,612,391
Income of subsidiaries attributable to minority interests	1,367,734	1,578,891
Funds provided from operations	11,733,370	12,063,750
Proceeds from issue of long term debt	5,328,485	6,218,438
Sale of leases (Note 11)	1,308,282	—
Fixed asset disposals	1,068,559	265,039
Decrease in investment in associated company	75,000	175,000
Shares issued by subsidiary to minority shareholders	—	1,800,000
Other items—net	161,377	940,755
	<u>19,675,073</u>	<u>21,462,982</u>

Application:

Additions to fixed assets	15,151,032	16,094,998
Reduction of long term debt	2,055,429	1,876,992
Charges to provision for unfunded pensions (Note 7)	284,173	776,288
Dividends paid—		
To preferred shareholders of Hawker Siddeley Canada Ltd.	201,255	—
To minority shareholders of subsidiaries	721,770	384,300
Purchase of shares in partly owned subsidiary	55,532	—
Charges to provision for special costs and losses (Note 8)	970,208	5,416,451
Expropriated coal mining inventories reclassified to non-current assets	—	967,145
	<u>19,439,399</u>	<u>25,516,174</u>
Increase (decrease) in working capital before the items set out below	<u>235,674</u>	<u>(4,053,192)</u>
Sale price of Dosco shares to Sidbec	—	25,109,370
Notes due from Sidbec	—	(5,000,000)
Purchase price of shares in Hawker Industries Limited	—	(14,652,425)
Payable for debentures of Dosco	—	(3,566,450)
Excess of Dosco working capital over working capital of Hawker Industries Limited	—	(9,303,325)
Costs on sale of Dosco shares	—	(511,835)
Severance costs on reorganization of executive staff	—	(823,450)
	<u>—</u>	<u>(8,748,115)</u>
Increase (decrease) in working capital	<u>235,674</u>	<u>(12,801,307)</u>
Working capital at beginning of year	<u>34,230,425</u>	<u>47,031,732</u>
Working capital at end of year	<u>\$34,466,099</u>	<u>\$34,230,425</u>

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 1969

1. Principles of Consolidation:

The consolidated financial statements include the accounts of all subsidiary companies except Dominion Coal Company, Limited (Domco), a partly-owned subsidiary of Hawker Industries Limited (Industries). The accounts of Domco are not consolidated because the company ceased operations March 30, 1968 on the expropriation of substantially all of its assets (see note 2).

2. Coal Mining Interests:

	<u>1969</u>	<u>1968</u>
Shares in subsidiary not consolidated, at cost . . .	\$ 331,514	\$ 331,514
Comprising all the issued common shares and 26,521 preferred shares of Domco		
Coal mining inventories and properties	1,541,204	1,541,204
	<u>\$1,872,718</u>	<u>\$1,872,718</u>

At March 30, 1968 the Cape Breton Development Corporation expropriated substantially all of the assets of Domco and the major part of the coal mining inventories and properties. The compensation to be paid on the expropriations has yet to be established but if losses are incurred it is expected that they will be charged to the provision for special costs and losses (see note 8).

3. Investment in Associated Company:

The book value attributable to the investment in shares and notes of Canadian Steel Wheel Limited (50%-owned) amounted to \$4,286,561 at July 31, 1969, the close of that company's latest fiscal year.

4. Notes Due from Sidbec:

These are non-interest bearing notes due January 31, 1974 received from Sidbec, a corporation owned by the Province of Quebec on the sale by the Company in 1968 of its shareholdings in Dominion Steel and Coal Corporation, Limited (Dosco).

5. Bank Advances:

Bank advances at December 31, 1969 include bank advances to Industries of \$3,535,127 secured by a general assignment of its accounts receivable and an assignment of its inventories.

6. Long Term Debt:

	<u>1969</u>	<u>1968</u>
Canadian General Transit Company, Limited (55%-owned)—		
Equipment Trust Certificates		
4%—6¾% due 1970—1980	\$ 2,780,000	\$ 3,092,000
First Mortgage Equipment Notes		
6%—7½% due 1970—1987	3,525,000	3,740,000
8½% due 1970—1971 and \$2,550,000 in 1972	2,850,000	3,000,000
First Mortgage Sinking Fund Equipment Notes		
6¾% due 1970—1986	4,250,000	4,500,000
5%—9% due 1970—1989 (U.S. \$18,575,000)	19,960,906	15,452,148
	<u>33,365,906</u>	<u>29,784,148</u>
Less—Due within one year included in current liabilities	2,055,429	1,786,992
	<u>31,310,477</u>	<u>27,997,156</u>
Orenda Limited (60%-owned)—		
6% Notes due December 2, 1971	15,600,000	15,600,000
Less—Payable to Hawker Siddeley Canada Ltd. and eliminated on consolidation	9,400,000	9,400,000
	<u>6,200,000</u>	<u>6,200,000</u>
	<u>\$37,510,477</u>	<u>\$34,197,156</u>

For Canadian General Transit Company, Limited and Orenda Limited the combined working capital and the combined investment in fixed assets, after deducting accumulated depreciation, amounted to \$12,651,878 and \$72,701,789, respectively, at December 31, 1969.

7. Pensions:

In accordance with previous policy, unfunded pensions paid in respect of past service during the year ended December 31, 1969 of \$711,673 have been charged to the provision for unfunded pensions set aside for that purpose. Additionally, \$427,500 was charged against operations and credited to the provision in recognition of the interest factor. At December 31, 1969 the present value of unfunded past service pension costs is approximately \$8,400,000.

On various trustee pension plans of the Company and its subsidiaries, unfunded past service costs at December 31, 1969 are estimated at \$2,600,000. The intention is to amortize this amount by annual payments to be charged to operations of approximately \$195,000.

8. Provision for Special Costs and Losses:

On the sale by the Company in 1968 of its shareholdings in Dosco, and the related acquisition by Industries of various assets and operations from Dosco, Industries assumed all unascertained liabilities in connection with the disengagement of Dosco from the operations of its former Sydney Works and its coal operations. Costs and losses incurred in connection with these liabilities are charged to the provision for special costs and losses set aside for that purpose. During the year ended December 31, 1969 an amount of \$970,208 was charged to the provision for payments made in 1969 and for payments agreed to be made in 1970 classified as accounts payable.

The significant continuing obligations arising out of the disengagement of Dosco from the operations of its former Sydney Works involve long term contracts for the purchase of commodities commonly used in the production of iron and basic steel. It is not possible to determine accurately the eventual cost to Industries of selling these commodities since deliveries in some instances extend over a period of years during which the selling prices and the demand of potential customers will vary. In the opinion of management the balance of \$4,363,341 available in the provision is a reasonable estimate at this time of the additional special costs and losses which may be incurred, including losses which may arise from the expropriations of coal mining interests referred to in note 2.

9. Provision for Income Taxes:

Losses of a subsidiary company could not be applied in determining the provision for income taxes in 1969. In 1968 the application of losses carried forward in subsidiary companies reduced the provision for income taxes by approximately \$1,100,000.

The 1969 provision for income taxes includes \$2,464,291 set aside in the consolidated balance sheet for deferred income taxes.

10. Preferred and Common Shares:

	<u>1969</u>	<u>1968</u>
Preferred shares of the par value of \$100 each issuable in series—		
Authorized—250,000 shares		
Issued—240,000 5¼% cumulative redeemable shares		
Outstanding—140,000 shares.	\$14,000,000	\$14,000,000
Common shares without nominal or par value—		
Authorized—10,000,000 shares		
Issued—8,117,341 shares.	54,279,748	83,443,579
	<u>\$68,279,748</u>	<u>\$97,443,579</u>

During 1969 a dividend on the preferred shares was paid in respect of the quarter ended April 2, 1968 ; dividends are in arrears from that date in the amount of \$1,409,000. The preferred shares are redeemable at the option of the Company at \$105 per share.

By supplementary letters patent granted May 21, 1969, the common share capital was reduced by \$29,163,831 and this amount was applied to eliminate the accumulated deficit as at December 31, 1968 of \$26,225,529 and to leave a balance in retained earnings equivalent to consolidated net income for 1968. The amount of \$29,163,831 represents the loss incurred by the Company in 1968 relating to the sale of its shareholdings in Dosco, as set out in the accompanying consolidated statement of retained earnings.

Options to subscribe for unissued common shares were outstanding at December 31, 1969 for 25,000 shares at \$3.35 per share expiring 1979 and for 150,250 shares at prices from \$6.00 to \$8.50 per share expiring 1974 to 1976. Of the foregoing, 71,000 shares are optioned to officers and directors. None of these shares are optioned to directors who are not officers.

11. Sale of Leases:

On the sale in 1969 of customers' equipment leases, \$1,308,282 of the proceeds was credited to accumulated depreciation to reduce the related equipment under lease to estimated realizable value at maturity of the leases.

12. Contingent Liabilities:

The Company has a contingent liability of approximately \$2,200,000 for customers' conditional sales contracts and equipment leases discounted with finance companies.

13. Remuneration of Directors and Officers:

For the year 1969 the remuneration of directors, including amounts received as officers, was \$206,543 and the remuneration of other senior officers amounted to \$170,000.

To the Shareholders of Hawker Siddeley Canada Ltd. :

We have examined the consolidated balance sheet of Hawker Siddeley Canada Ltd. as at December 31, 1969 and the consolidated statements of income and retained earnings and source and application of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to final determination of the costs and losses referred to in Note 8 to the consolidated financial statements, these financial statements present fairly the financial position of the companies as at December 31, 1969 and the results of their operations and the source and application of their working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.
Chartered Accountants.

Toronto, Ontario, March 20, 1970

Steel Fabricating and Equipment

Bridges
Castings and forgings
"Dosco Dint Header"
"Dosco Roadway Cutter-Loader"
Fabricated structural steel for buildings
Mining Equipment
Offshore oil drilling units
Railway axles
Steel ingots
Steel wheels
Tanks, storage and pressure
Transmission towers

Transportation

Containers, container flats
Highway trailers
Industrial and mine cars
Marine forgings and metalworking
Naval and merchant shipbuilding and repair
Railway rolling stock
Railway tank and hopper car leasing
Rapid transit passenger cars (subway, commuter and mainline)
Storage terminals, liquids

Power

Aircraft gas turbines
Components for nuclear power applications
Computer services
Engineering, design, laboratory, testing and graphics services
Industrial gas turbines for electrical power generation, liquid and gas pumping, heating and air conditioning

Woodland Industries Equipment

"Chip-N-Saw" machines
"Pulpwood Porter" (rubber-tired transporter)
"Tree Farmer" (rubber-tired skidder)
"Tree Processor" (slasher and delimber)
"Tree Clipper" (shear and piler)
Logging Equipment
Sawmill and chipping equipment

Divisions

Canadian Car Division, Thunder Bay, Ont.
Canadian Car (Pacific) Division, Vancouver, B.C.
Canadian Steel Foundries Division, Montreal, Que.

Subsidiaries

Hawker Industries Limited, Toronto, Ont. (99%)*
Canadian Bridge Division, Windsor, Ont.
Dosco Overseas Engineering Limited, Aylesbury, England
Halifax Shipyards Division, Halifax, N.S.
Trenton Works Division, Trenton, N.S.
Can-Car Inc., Atlanta, Ga., U.S.A. (100%)*
Orenda Limited, Malton, Ont. (60%)*
Orenda Engines Inc., Buffalo, N.Y., U.S.A. (60%)*
Canadian General Transit Company, Limited, Montreal, Que., Toronto, Ont., Moose Jaw, Sask., Red Deer, Alta. (55%)*

Associate Company

Canadian Steel Wheel Limited, Montreal, Que. (50%)*

*percentage ownership by
Hawker Siddeley Canada Ltd.

